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INFO RUEHAH/AMEMBASSY ASHGABAT 3270
RUEHTA/AMEMBASSY ASTANA 9453
RUEHEK/AMEMBASSY BISHKEK 3884
RUEHDBU/AMEMBASSY DUSHANBE 3749
RUEHBUL/AMEMBASSY KABUL 1890
RUEHKV/AMEMBASSY KYIV 0013
RUEHMO/AMEMBASSY MOSCOW 7150
RUEHUL/AMEMBASSY SEOUL 0196
RUCPDO/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001662

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DEPT FOR SCA/CEN

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TAGS: [ECON](#) [EINV](#) [EIND](#) [ELTN](#) [RU](#) [UZ](#)

SUBJECT: GM-DAT, UZDAEWOO IN JOINT VENTURE TALKS; CHEVROLET
BRAND TO COME TO UZBEKISTAN

REF: A. A) TASHKENT 511

[B. B\)](#) 06 TASHKENT 1948 (NOT TOL)

Classified By: CLASSIFIED BY ECON OFF B. OLSEN FOR REASONS 1.4 (B, D).

[1](#)1. (C) Summary: GM-DAT, a Korean-based GM subsidiary, is in talks on the establishment of a joint venture (JV) with UzDaewoo. GM-DAT intends to sign the formal contract with President Karimov in October and then publicly announce the JV. GM-DAT views the JV as a long-term investment in which it will lend its technical, design and marketing expertise, not hard currency, to knitting UzDaewoo into the broader GM family. The result should be exceptional growth for the Uzbek auto plant, the introduction of the Chevrolet brand to the domestic market, and increased GM exports to Russia and other Commonwealth of Independent States. GM-DAT still must work out the specific terms of the contract, including tax breaks and customs issues. End summary.

[1](#)2. (C) Three GM-DAT representatives, including the Amcit President and Chief Executive Officer, also a VP of GM in Detroit, visited Tashkent September 11-14 and met with Charge and econoff on September 12. They said GM-DAT is now in serious discussions with the GOU on the terms of a 40-60 GM-UzDaewoo JV. In order to finalize the specifics of the JV contract by the end of September, numerous GM-DAT teams have visited Uzbekistan in the past few months. GM-DAT shortly hopes to publicly announce the JV and the launch of the Chevrolet brand in Uzbekistan.

[1](#)3. (SBU) The decision to establish a JV was made in order to grow the GM brand. GM-DAT considers the JV a long-term investment; while it is not investing its own funds, it is contributing qualitatively with its oversight, distribution and marketing expertise. GM's Europe goal is to knit Uzbekistan into its marketing and production strategy for the Commonwealth of Independent States. It already has trained over 250 Uzbeks in South Korea and has tentative plans to send Uzbeks to work at a GM plant in St. Petersburg.

What are the Real Changes?

[1](#)4. (SBU) Because its technology is increasingly obsolete, UzDaewoo is seeking GM-DAT's assistance in upgrading its product line and establishing a long-term supply agreement. Without foreign assistance, UzDaewoo's production would also precipitously fall as its export markets, approximately 70

percent of total production, adopt modern environmental regulations, with which UzDaewoo's current factories and expertise cannot comply.

15. (SBU) GM-DAT would provide the technical expertise to retool assembly lines to produce autos compliant with the new environmental standards Russia is adopting (ref A). GM-DAT hopes to expand production from 175,000 to 250,000 units/year by around 2010, half each going to the domestic and foreign market. The firm is focused on increasing efficiency. No additional workers will be employed to produce the additional vehicles; and a few may be RIFED with the automotive plants' increased efficiency.

16. (SBU) All UzDaewoo showrooms and dealerships will be co-branded as Daewoo-Chevrolet. Three new vehicles will be marketed that are partially built in South Korea and finished in Uzbekistan: the SUV Captiva, the midsize Epica and a seven-person minivan. Currently nine Uzbek firms supply core parts to UzDaewoo; the majority of these firms are Korean-Uzbek JVs. GM-DAT intends to use its expertise to bring the suppliers' products into compliance with Russian and European standards in order to continue the supply relationship once GM-DAT and UzDaewoo begin exporting to Russia.

President Karimov's Auto-Vision

17. (C) On a previous visit (ref A), the GM-DAT CEO met with President Karimov. GM-DAT Amcit said Karimov stressed that the automobile industry is one of his top priorities (another is education). He reportedly wants long-term investment and

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increased growth for UzDaewoo and its domestic part suppliers, including exporting parts to GM globally. The representatives opined Karimov needs the hard cash the JV could supply Uzbekistan (and by default, Karimov).

18. (C) Last week, the GM-DAT team met with one of the lead Uzbek negotiators, Minister of Finance Azimov. They plan to meet with Karimov closer to the final signing of the agreement, tentatively scheduled for the first or second week in October. GM-DAT CEO said he would return to Tashkent for a signing ceremony with Karimov.

Sticky Points

19. (C) In light of the economic risks associated with investment in Uzbekistan, GM-DAT is meticulously working on the details of its contract. According to the GM-DAT Amcit, the firm is discussing tax breaks valid for at least 25 years. (Note: Tax breaks for foreign companies are usually in the form of a Presidential decree. Such decrees are approved and terminated only by President Karimov. Karimov abolished Newmont Mining's permanent tax break in early 2006, resulting in the government assessing Newmont with back taxes (ref B). End note.) The GM-DAT CEO said he was concerned about customs regulations and obtuse trade agreements with neighboring countries, especially with Kazakhstan and Russia. Uzbek officials have repeatedly assured GM-DAT that its trade agreements with Russia are very strong and the Russians will not obstruct exportation.

110. (C) Comment: GM-DAT is the knight in shining armor for the Uzbek auto industry. It offers everything that UzDaewoo needs to stay in the game and expand. Plus, GM has a strong international reputation. GM-DAT's new role as a foreign investor in Uzbekistan likely will improve Uzbekistan's reputation, tarnished most recently by Newmont's expropriation (partially rectified by an out of court settlement) and Coscom's forced sale. Karimov desperately needs GM-DAT to resuscitate the auto industry, the heart of which is in the Ferghana Valley. Also, the timing of this

new JV with a blue ribbon American corporation conveniently
coincides with the start of the presidential election
campaign.

NORLAND